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SUBJECT: VIETNAM'S ECONOMY 2008: SLOWER ECONOMIC GROWTH, RECORD FDI, AND HIGH INFLATION

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¶1. (U) Summary: Vietnam's Gross Domestic Product (GDP) growth slowed to 6.2 percent in 2008, the lowest since 2000. Inflation rose sharply, with the 2008 average monthly Consumer Price Index (CPI) rising 23 percent compared to the 2007 monthly average, though price rises slowed toward the end of the year. Exports remained strong at USD 62.9 billion, up 29.5 percent from 2007. Imports, however, continued to surpass exports at USD 80.4 billion, which resulted in a record trade deficit of USD 17.5 billion. End Summary.

LOWEST GROWTH RATE SINCE 2000

¶2. (U) The General Statistics Office (GSO) of Vietnam released its 2008 economic figures last week. The numbers showed the early impact of the global economic downturn on Vietnam's economy. Vietnam's GDP growth rate slowed to 6.2 percent in 2008 from last year's 8.5 percent. This rate is the lowest since 2000 and falls below Vietnam's target of 7 percent. Total GDP was VND 1,478,695 billion, or approximately USD 88 billion.

SERVICES SECTOR LEADS GDP GROWTH

¶3. (U) The services sector grew 7.2 percent, lower than the 8.7 percent growth in 2007, but for the first time, was the biggest contributor (2.9 percentage points, or almost half of Vietnam's overall 6.2 percent GDP growth rate). In years prior, industry and construction have been the lead contributors to GDP growth. Within the services sector, the collective group of transportation, post and telecommunications, and tourism services showed the highest growth, up 13.8 percent compared to 10.4 percent last year. Other service sectors reported lower growth rates, including hotels and restaurants (up 8.5 percent in 2008 versus 12.7 percent in 2007), and banking, insurance and financial services (up 6.6 percent compared to 8.8 percent last year).

¶4. (U) Growth in the industry and construction sectors slowed to 6.3 percent from 10.6 percent last year, contributing 2.6 percentage points to the overall GDP growth rate. This was mainly due to a 3.8 percent decrease in extraction industries (mostly crude oil). Private sector growth in this sector (the only sector where GSO measures private versus public activity) slowed to 18.8 percent, down from 21 percent in 2007, but continued to be the growth driver. In contrast, the state sector remained the slower performer with

only 4 percent growth this year compared with 10.3 percent last year. In value terms, foreign invested enterprises (FIEs) grew 18.6 percent and accounted for 40 percent of total industrial output.

¶5. (U) The agriculture, forestry, and fishery sectors achieved growth of 3.8 percent in 2008, up from 3.4 percent in 2007, thereby contributing 0.7 percentage points to GDP growth. This was largely attributable to successful rice crops. Total rice outputs increased by 2.7 million tons (7.5 percent) over 2007, the largest increase in the last decade. Rice cultivation area expanded by over 200,000 hectares and rice productivity rose by 0.23 tons per hectare.

FOREIGN DIRECT INVESTMENT COMMITMENTS INCREASE
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¶6. (U) In 2008 Vietnam attracted the highest level of FDI commitments since opening its economy in 1987, with USD 60.3 billion in new registered capital, 3.4 times higher than that of 2007 (USD 17.8 billion). (Note: Actual FDI disbursements may be considerably less than registered FDI.) In addition, USD 3.7 billion was added to 311 existing projects, making up a total of USD 64 billion new and additional FDI committed to Vietnam in 2008. FDI disbursement also increased with USD 11.5 billion actually implemented, a 43.2 percent increase over the 2007 level of USD 8 billion but still only 18 percent of committed FDI levels.

¶7. (U) Foreign Invested Enterprises (FIEs) posted total revenue of USD 50.5 billion, up 24.4 percent year-on-year, and earned USD 24.5 billion from exports (up 23.7 percent from 2007). This accounted for 40 percent of Vietnam's total exports (see below). FIEs paid USD 1.9 billion in taxes, a 25.8 percent increase over 2007. FIEs also created 200,000 new jobs in the domestic labor market.

DOMESTIC CONSUMPTION SLOWS

¶8. (U) Total retail sales and services revenue, about USD 57 billion, rose 31 percent over the 2007 level, mainly due to high consumer prices. Net retail sales revenue went up by only 6.5 percent in 2008. (Note: Despite numerous sales and promotion campaigns launched before Tet, Vietnam's busiest retail season, retail sales reportedly remain slow in early 2009.)

EXPORTS START DECLINE, TRADE DEFICIT HIGH

¶9. (U) Vietnam earned USD 62.9 billion from exports, up 29.5 percent over 2007. Higher world commodity prices were an important contributing factor. For example, crude oil, Vietnam's largest export, was down 7.7 percent in volume but up 23.1 percent in value thanks to higher export prices in the middle of the year. The United States remains Vietnam's largest export market, buying USD 11.6 billion in goods, up 14.5 percent from 2007 and accounting for 18 percent of Vietnam's total exports in 2008. Due to sluggish overseas demand, Vietnam's overall exports started falling by mid-year, from USD 6.5 billion in July, to USD 6.1 billion in August, USD 5.8 billion in September, USD 5.1 billion in October, and USD 4.2 billion in November. In December, exports recovered slightly to USD 4.9 billion due to higher export volume of crude oil, rice and apparel.

¶10. (U) Vietnam's imports rose by 28.3 percent to USD 80.4 billion in 2008. Imports slowed starting in August but continued to outpace exports. Vietnam had a very large trade deficit of USD 17.5 billion in 2008, equivalent to approximately 20 percent of its GDP (up from 17 percent in 2007).

INFLATION HIGH BUT UNDER CONTROL

¶11. (U) The average monthly consumer price index (CPI) increased by

23 percent in 2008 compared to the monthly average CPI of 2007, the largest increase in the last ten years. Average prices of all goods and services in the price basket went up, but food (up 49 percent) was the major driver of increasing CPI, followed by average prices for houses and building materials (up 20.5 percent). Average prices of other goods and services rose by 4.2 to 16 percent.

¶12. (U) The GOV's tightened monetary policy and its 8 step plan to fight inflation began to take effect late in the year. The CPI fell by 0.2 percent compared to the previous month in October, 0.8 percent in November and 0.7 percent in December. With the world commodities prices forecasted to decline, the GVN predicts that inflation will fall below 10 percent in 2009.

¶13. (U) Comment: Vietnam has clearly begun to feel the effects of the global economic downturn. The GVN will have to continue to closely monitor the balance of trade, as exports will likely continue to fall in 2009. A large trade deficit coupled with slow FDI disbursement could put pressure on the country's external account. End comment.

¶14. This cable was coordinated with ConGen HCMC.

MICHALAK